

Message Text

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ACTION EB-08

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TAGS: EAGR, ETRD, MX
SUBJECT: MEETING WITH INMECAFE

1. SUMMARY. INMECAFE OFFICIALS ATTESTED TO NEED TO MAINTAIN INTERNAL PRICE DERIVED FROM A N. Y. PRICE OF US\$1.90 IN ORDER TO MEET PRODUCTION COSTS AND INSISTED THAT 1977-78 PRODUCTION WOULD NOT EXCEED 3.5 MILLION BAGS. END SUMMARY.

2. TO OBTAIN MEXICO'S POINT OF VIEW ON CENTRAL MILDS MEETING IN EL SALVADOR MARCH 9-10, AGATT MET WITH LIC. DANIEL MORALES, SUBDIRECTOR OF FOREIGN TRADE FOR INSTITUTO MEXICANO DE CAFE (INMECAFE) AND LIC. PIRERA, ASSISTANT TO MORALES. QUESTIONED ABOUT THE UTILITY OF WITHDRAWING FROM THE EXPORT MARKET AFTER MEETING IN SAN SALVADOR, BOTH MORALES AND PINERA STRESSED NEED TO MAINTAIN A MINIMUM PRICE TO PRODUCERS WHICH WOULD BE EQUIVALENT TO US\$1.80 TO - 1.90 PER POUND OF GREEN COFFEE, N. Y. BASIS. MORALES STATED THAT INMECAFE PRICE TO PRODUCERS WAS BASED ON NEW YORK PRICES AND INCLUDED A BUILT-IN FLOOR. AT PRICES MUCH BELOW US\$2.00, INMECAFE LOSES MONEY BECAUSE IT FINDS IT POLITICALLY IMPOSSIBLE TO

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CUT PRICE TO PRODUCERS. THEIR MARKET RESEARCH HAS SHOWN THAT U. S. CONSUMER BALKS AT RETAIL PRICES ABOVE \$3.00 AND BOTH EXPRESSED BELIEF THAT \$2.00 FIGURE AT NEW YORK SHOULD BE ACCEPTABLE TO BOTH PRODUCER AND CONSUMER COUNTRIES.

3. ACCORDING TO MORALES, BRAZILIAN PRODUCTION FOR 1977-78

WILL NOT REACH 16 MILLION BAGS AND PRESENT WORLD PRICE FOR COFFEE IS NOT AN ACCURATE INDICATION OF THE CURRENT WORLD DEMAND-SUPPLY COFFEE SITUATION. MORALES SEES CURRENT SITUATION AS ONE OF TIGHT SUPPLY, PARTICULARLY DUE TO EXPECTATION OF MUCH LOWER COFFEE CROPS AND STOCKS FOR 1977-78 IN THE MEXICAN-CENTRAL AMERICAN REGION. WHEN ASKED ABOUT THE INFLUENCE OF RECENT DISCOUNT SALES BY BRAZIL ON THE WORLD PRICE, MORALES REPLIED THAT BRAZIL HAD BEEN OUT OF THE MARKET FOR SOMETIME AND NEEDED TO MOVE COFFEE IN ORDER TO INCREASE ITS FOREIGN EXCHANGE RETURNS. NOTE: PRIVATE MEXICAN COFFEE TRADE HAS COMPLAINED OF DOWNWARD PRESSURE ON PRICE CAUSED BY BRAZILIAN DISCOUNT SALES. MORALES ON THE OTHER HAND, CLAIMED THAT EXAGGERATED PRODUCTION AND STOCK FIGURES OF USDA WERE DEPRESSING COFFEE PRICES.

4. IN TERMS OF MEXICO'S EXPECTED PRODUCTION FOR 1977-78 INMECAFE IS STILL PREDICTING A SIZABLE DECLINE FROM EARLIER ESTIMATE OF 4.1 MILLION BAGS TO A LEVEL OF 3.5 MILLION BAGS OR LESS. LOWER PRODUCTION IS ATTRIBUTED TO DROUGHT. HOWEVER, SOME PRIVATE SECTOR SOURCES AND ON SITE INSPECTIONS CARRIED OUT RECENTLY INDICATE A SIZABLE INCREASE IN PRODUCTION FOR THE YEAR WHICH SHOULD RESULT IN A 1977-78 CROP OF APPROXIMATELY 4.0 MILLION BAGS. LUCEY

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